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This committee has a difficult and imposing task before it, and as you deliberate on potential budget cuts and revenue sources to offset the repeal of the services tax, I would ask that you consider the following as it relates to the insurance industry in Michigan.

During the recent legislative effort to replace the Single Business Tax revenue through the creation of the Michigan Business Tax, two industries stood out as the “losers,” -- financial institutions and Michigan-based insurance companies. Our domestic insurance industry not only saw an 18% increase in their taxes, but they were stripped of nearly every job creation credit and economic development incentive tax credit available to every other industry under the new Michigan Business Tax act.

While the large majority of Michigan-based businesses will actually enjoy tax cuts under the MBT, and some will even completely eliminate their state business tax liability and in fact receive property tax rebates, Michigan-based insurers and their customers will pay substantially more.

It is also critically important to recognize and understand the unique tax environment the insurance industry faces both here in Michigan and in other

states. Unlike any other business category, insurers face what are called retaliatory tax provisions in every state except Hawaii. These provisions are found in Michigan law at MCL 500.476a of the insurance code and MCL 208.1243(1) of the MBT.

As a result of these provisions, in addition to the increase in MBT taxes paid to the State of Michigan, our domestic insurers also experienced a significant increase in their tax obligation to other states where they now will pay additional retaliatory taxes as a direct result of increasing Michigan's premium tax rate. **In several cases, the increase in retaliatory taxes paid to other states far exceeds the increase in their Michigan tax assessment. This is because for these companies a large portion of their business is to customers outside the state of Michigan.**

An additional point to consider is that Michigan insurers pay one of the highest rates of additional assessments to the State of Michigan for the multitude of residual market and guaranty funds which have been established by the Michigan Legislature over the years. In 2006, these additional assessments totaled over \$182 million. This represents an additional surcharge of over 80% of the combined Single Business Taxes and retaliatory taxes paid by insurance companies in Michigan in FY 2006.

Contrary to the design of the MBT to draw additional revenue from out of state companies selling into Michigan, increases in the premium tax will actually result in our domestic insurance industry paying significant

additional taxes to other states. Out of state insurers, selling their products in Michigan will largely be unaffected by any increase in tax rates because they are already paying a higher effective rate under the existing retaliatory tax structure.

Insurers are a lot like politicians.... Everyone loves to criticize them generally, but when you ask people about their own representatives or senators or the insurance company in their own community, it's a whole different storey. Insurers provide stable and high paying jobs in their local communities. They are an environmentally friendly industry and welcomed corporate citizens in the communities in which they are located.

Lansing is blessed with having a number of insurance companies within and just outside its borders. Ask Lansing Mayor Virg Bernero "is the Accident Fund Insurance Company of America and Michigan Millers Insurance Company the types of employers he wants in his community?" Ask East Lansing Mayor Sam Singh if he would like more employers like AP Capital in his city. Ask the Delta Township officials why they worked so hard to encourage Auto Owners Insurance Company not to relocate to another township recently and if they would like more employers like Farm Bureau Insurance Company to locate in their township. Just look at the effort put out jointly by the City of Lansing and Alameda Township to retain Jackson National Life Insurance Company in the greater Lansing area.

Over the last three years, four states have moved to change their insurance premiums taxes. Every one of them has moved to reduce those taxes, not increase them, with the design of attracting new investments into their states by insurance companies. Indiana, Nebraska and even Iowa are actively recruiting Michigan-based insurance companies to re-domesticate to their states. And you know what? They are listening.

Why is Michigan once again choosing to defy all common sense and move in the opposite direction? While other states are lowering their insurance taxes and providing incentives to attract insurance jobs to their states, Michigan is considering a second tax increase within the last six months and has made it our public policy to deny only one industry (that's the property and casualty insurance industry) the same job creation incentives that we extend to every other employer, whether Michigan-based or out-of-state. I implore you to think carefully and deliberately in the proposals you will consider in the coming days and weeks.

And as always, the Insurance Institute of Michigan and I stand ready to assist you in your deliberations.

Thank you, and I would be happy to answer any questions the Committee may have.